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C O N F I D E N T I A L SECTION 01 OF 03 NEW DELHI 000319

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SUBJECT: BOUCHER IN BHUTAN: VISIT EXPLORES WAYS TO
INFORMALLY BROADEN RELATIONS

REF: A. NEW DELHI 02912

[1](#)B. NEW DELHI 3187

Classified By: DCM Steven White for Reasons 1.4 (B and D)

[1](#)1. (SBU) Summary. The February 9-11 visit to Bhutan of Assistant Secretary Richard Boucher demonstrated continuing U.S. support for the tiny Himalayan kingdom. In meetings with the Prime Minister, the Minister of Economic Affairs, and the Fourth King, Boucher addressed Bhutan's peaceful transition to democracy and progress on its 10th Five-Year Plan. They also discussed Bhutan's intentions to diversify its economy from hydropower and agriculture to tourism and the information technology industry. Bhutanese leaders were keen to explore ways to informally expand bilateral relations, especially through educational exchanges and investment opportunities. End Summary.

Governing under the 10th Five-Year Plan

[1](#)2. (U) During his February visit to the Land of the Thunder Dragon, Assistant Secretary Boucher queried Bhutanese leaders on the progress of the 10th Five-Year Plan, which began on July 1, 2008. Prime Minister Jigmi Thinley reported the government has made steady progress on the plan, but "the most difficult" challenges lie ahead. The plan centers on improving infrastructure across the mountainous country, as Thinley believes isolation exacerbates poverty. He outlined the government's goal to provide all districts with phone connectivity and roads. Minister of Economic Affairs Khandu Wangchuk detailed the government's efforts to provide electricity for all citizens within the next five years. He admitted the goal is ambitious, but cautioned "we have to be ambitious to improve the country's health, development, and productivity." Additionally, the government aims to reduce unemployment to 2.5 percent.

[1](#)3. (U) In his recent travel to eight of Bhutan's 12 districts, Thinley noticed a widening gap between the country's rich and poor. Consequently, the 10th Plan focuses on balanced development and economic diversification. Thinley described his government's initiative to transform Bhutan into a major exporter of organic produce over the next 12 to 15 years. The government predicts that Bhutanese products will succeed in the growing middle class markets in India and China. Thinley remarked that increasing revenue is the only way farming can compete with other sectors and remain "worthwhile" in Bhutan.

[1](#)4. (SBU) In implementing the 10th Five-Year Plan, both the civilian government and the monarchy confirmed that the latter will continue to play a vital role in ruling the tiny

nation. Thinley assured his constituents that the monarchy may play "an even greater role" as democracy continues to take root in Bhutan. He noted that in Bhutan, "democracy came from the throne," while other South Asian countries that lack this "anchor" have witnessed a reversal in their democratic fortunes. The Fourth King Jigme Singye Wangchuck conversely commented that the monarchy must be "accountable to the people," evident in the constitutional provision which allows Parliament to call a vote of confidence against the monarch. The King believes these checks and balances will ensure that the Bhutanese system of governance will be "better than any other in South Asia."

Hydro Headaches

15. (U) Bhutanese officials lamented the lack of snow during the winter season, expressing their fear that the withdrawal of the glaciers is well underway. Given that hydroelectric exports to India account for 40 percent of the government's revenue, the government initiated a study on the status of Bhutan's 7,000 glaciers. Wangchuk, the Minister for Economic Affairs, confided that "preliminary reports are worrying," and said Bhutan has begun collaborating with the Austrian government on ways to combat "glacier lake outburst floods." The melting glaciers prompted the Bhutanese to explore other green energy alternatives such as solar and wind energy. Wangchuck informed Boucher that during his last visit to India, he asked the Indians to provide more information on wind energy technology.

16. (U) Despite these concerns, the Bhutanese government is

NEW DELHI 00000319 002 OF 003

moving forward with plans for additional hydropower projects.

The Minister for Economic Affairs explained that the "gestation period" for hydro projects is approximately eight years. Thus, if Bhutan is to meet its production target of 10,000 megawatts by 2020, the contracts for hydro projects must be completed within the next three years. The Economic Minister said the government has created Druk Holding and Investments Limited in 2007 to invest the funds from increased power generation revenues. Boucher recommended that Druk Holdings consider establishing scholarships for Bhutanese students.

Silicon Dragon?

17. (U) The melting glaciers have also encouraged the Bhutanese government to consider other sectors for the country's economic future, namely information technology and conference-based tourism. Prime Minister Thinley conveyed the success of last November's National Association of Software and Services Companies conference in Thimphu, which was attended by 22 of the 24 Indian IT giants. Thinley remarked the companies were "enchanted" by Bhutan's green energy initiatives and close bilateral ties with India. At the conference, Infosys offered 100 scholarships for Bhutanese students to attend its Bangalore training center and the Indian Institutes of Technology pledged to train 2,000 Bhutanese IT professionals. The Economic Minister indicated the first park will be located south of the capital, but future parks would be spread out throughout Bhutan to encourage "balanced development." The Bhutanese government also wants to move away from cultural tourism, which limits revenues to the brief festival season, to conference-based tourism, which would attract visitors year-round.

Refugee Roadblocks

18. (C) Prime Minister Thinley thanked Boucher for the U.S.-led refugee resettlement program, calling it "the greatest gift" Bhutan received in 2008. Thinley characterized the refugee problem as a "humanitarian, political, and security" impediment to Bhutan's democratic transition, especially given "increasing levels of militancy in the camps." Both the Prime and Economic Ministers

admitted that talks with Nepal regarding accepting a token number of refugees to Bhutan had not progressed, despite meetings with Nepalese leaders at the UN and the South Asian Association for Regional Cooperation meetings. Thinley believes the "very weak" Prachanda government does not have the mandate to "seriously negotiate" with Bhutan on this issue. Acting Foreign Minister and Economic Minister Wangchuk commented that Nepal is "preoccupied with trying to govern itself." Boucher urged both officials to continue negotiations as "it is important to the United States that there is some flow of refugees back to Bhutan."

Regional Analysis

¶9. (C) The Fourth King Jigme Singye Wangchuck also commented on the new Nepali government. A keen observer of the region, the Fourth King described the political climate in Nepal as "unpredictable" and argued that country's infrastructure and economic progress were "sliding backwards." His Majesty warned that the Prachanda government "will not last long," especially once the Nepalese people realize the Maoists "will not deliver." Despite these criticisms, Bhutanese leaders agree there are many areas for bilateral cooperation, especially on hydropower projects.

¶10. (C) The Fourth King confided, "the Bhutanese have never looked fondly on China" given its actions in Tibet in the 1950s and 1960s; consequently, the government pursues a "cautious policy" with China. His Majesty also divulged that negotiations on the demarcation of Bhutan's northern border have not progressed because China has been "surprisingly difficult." He explained many Bhutanese had expected greater "generosity" from China given its relative size; however, China has frustrated Bhutanese negotiators by offering to return land that already belongs to Bhutan in exchange for land in disputed areas. Stalled border talks have prevented Bhutan from opening trade routes with its northern neighbor, despite reports from the Economic Minister that China is "very keen" to proceed.

Expanding Bilateral Ties

NEW DELHI 00000319 003 OF 003

¶11. (U) Both the Prime Minister and the Economic Minister were eager to discuss ways to broaden informal U.S.-Bhutan relations, especially through educational exchanges and investment in expanding sectors. Prime Minister Thinley asked about expanding the Fulbright exchange program by several student slots each year. Additionally, he conveyed interest in having an American university establish a satellite campus in Bhutan. Thinley remarked that a management school of the quality of Harvard or Stanford Universities is particularly appealing. Boucher suggested that schools focusing on green energy may also be interested in the Himalayan country.

¶12. (C) The Fourth King said he believes bilateral relations are "extremely good...better than a lot of countries with whom the United States does have diplomatic relations." He added that his government thinks "the United States must play a strong role in international relations to ensure peace and stability." His Majesty pledged Bhutan's assistance whenever required, especially in the UN General Assembly. The Fourth King affirmed, "Bhutan is very happy to put aside its national interest to vote with the United States."

Comment

¶13. (C) Boucher's meetings with Bhutanese leaders resumed discussions held during the 2008 visits of Ambassador Mulford (Reftel A) and CODEL McCain (Reftel B). Bhutan has already honored the Fourth King's pledge to consider U.S. interests by abstaining on important human rights votes at the UN during the past two years. His Majesty's remarks may signal that Bhutan would take a bolder step and vote with the United

States if pressed. End Comment.
MULFORD